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ABSTRACT

This is one of a series of workbooks in consumer education which would also be useful in English as a Second Language (ESL) classes. In addition to textual material, each lesson is illustrated with pen-and-ink drawings and contains various types of short exercises to check comprehension and vocabulary. (AMH)

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BUYING ON CREDIT

by

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FL010 832

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WORKBOOKS IN THIS SERIES:

SURVIVAL AT THE SUPERMARKET

DRESS FOR LESS

REPAIRS WITHOUT RIP-OFFS

SO YOU WANT TO BUY A CAR?

BUYING ON CREDIT

For Buying on Credit:
International Standard Book Number: 0-88436-501-8

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Introduction

WHAT IS CREDIT ANYWAY?

One way to buy something is to pay cash. Another way is to use credit. Credit allows you to buy things now and pay later.

You use credit when you "charge" something at a store. You pay later when the store sends you a bill.

Have you ever bought anything using a charge account or credit card?

☐ Yes ☐ No If yes, tell what you bought:

_____

_____

_____

_____

You use credit when you buy something and pay for it in installments. This means you pay for it a little at a time. Have you ever bought anything on the installment plan?

☐ Yes ☐ No If yes, tell what you bought:

_____

_____

_____

_____

You use credit when you borrow money. Have you ever borrowed money?

☐ Yes ☐ No If yes, tell what the loan was for:

_____

_____

_____

_____

Where did you borrow the money? (bank, finance company, credit union, friend, family member, etc.)

_____

_____

_____

_____

Which sentence describes you?

☐ I use credit all the time.

☐ I sometimes use credit.

☐ I have never used credit.

If you have never used credit, this workbook will tell you what you need to know.

If you have used credit, this workbook will help you see how much you know. It may help you save money the next time you buy on credit.

WORDS TO KNOW WHEN YOU USE CREDIT

Debt (DĔT) — money owed that must be repaid. When you buy on credit, you go into debt.

Creditor (KRĔD i ter) — person or business that gives credit to others. When you buy on credit, you owe money to your creditors.

Debtor (DĔT er) — person who borrows money.

Loan (LŌN) — money borrowed with a promise to repay. When you borrow money, you take out a loan.

Interest (ĬN tr̆est) — money paid to borrow money. Interest is stated as a percentage. Sometimes interest is figured by the month. You might be charged 1½% interest on what you owe each month. If you owed $100 for one month, you would have to pay $1.50 in interest.

Annual percentage rate (ĂN ū ăl pĕr CĔNT ăje rāte) — this is the cost of a loan over one year. Annual means for one year. You will often see it written APR, for short. It is the yearly interest rate. The federal *Truth-in-Lending Law* says you must be told the annual percentage rate when you use credit. This is true even if you only borrow money for six months.

Finance charge (FĪ năns CHĂRJ) — the total dollar amount you pay to use credit. It is stated in dollars. The finance charge includes interest. It may also include other charges. You may have to pay for insurance. Insurance would repay the loan if you got sick or died. You may have to pay for the paperwork it takes to bill you. The *Truth-in-Lending Law* says you must be told the finance charge. You can use the finance charge to compare credit costs. But the annual percentage rate of the finance charge is more important when you compare costs.

Now do you know these words? Test yourself. Fill in the blanks to complete the sentences. Use these words:

debt interest finance charge annual percentage rate

1. When you buy on credit, you go into _____.
2. The _____ tells you how much interest you pay on a loan for a year.
3. The _____ tells you the total amount of money you pay for credit.
4. The yearly _____ rate helps you compare credit costs.

Chapter 1

WHEN YOU NEED CREDIT

APPLYING FOR CREDIT

Suppose a friend wanted to borrow money from you. Would you lend it? Suppose someone you didn't know wanted to borrow money from you. Would you lend it? You might think — I don't know this person. How do I know I would get my money back?

When you want to borrow money or buy on credit, creditors want to know about you. They want to know if you are a good credit risk. They want to know if you can and will repay your debts.

When you ask or "apply" for credit, you will be asked to fill out an *application* (ăp plĭ KĀ shŭn) form. The application tells about you.

Look at the next page. It is an application for a charge account at a department store. The store wants to know about you. It wants to know where you work and how long you have worked there. It asks about your expenses and your debts. The store wants to know if you have used credit before. It asks for *references* (RĔF ər ən sĕs). A reference is someone that knows you and can tell about you.

Practice applying for credit. Fill out the credit application on the next page. Here are some words you may need to know:

dependent — a child or someone else you support

spouse — husband or wife

authorized — given permission

mortgage payment — monthly payment on a loan to buy a house

net earnings — take-home pay

SUPER-DUPER DEPARTMENT STORE

APPLICATION FOR CREDIT

First Name	Middle Initial	Last Name	SOC. SEC. NO.
			AGE
Street Address			NUMBER OF DEPENDENTS
City	State	Zip Code	PHONE NO.

If applicant's spouse is authorized to buy on the account, print name:

If others are authorized to buy on the account, print names here:
1. 2.

HOW LONG AT PRESENT ADDRESS	OWN ☐	BOARD ☐	RENT ☐	MONTHLY RENT OR MORTGAGE PAYMENT

FORMER ADDRESS (IF LESS THAN 2 YEARS AT PRESENT ADDRESS) | HOW LONG

EMPLOYER

ADDRESS | CITY | STATE | ZIP

HOW LONG	OCCUPATION	NET EARNINGS	MONTHLY ☐ WEEKLY ☐

FORMER EMPLOYER (IF LESS THAN 1 YEAR WITH PRESENT EMPLOYER) | HOW LONG

OTHER INCOME IF ANY AMOUNT $	SOURCE OF INCOME

NAME OF BANK	ACCOUNT NUMBER	SAVINGS ☐ CHECKING ☐	LOAN ☐

NAME OF RELATIVE OR PERSONAL REFERENCE OTHER THAN SPOUSE

ADDRESS

CREDIT REFERENCES: STORES, CREDIT CARDS, BANK LOANS, ETC.

CREDIT REFERENCE | ACCOUNT NUMBER

CREDIT REFERENCE | ACCOUNT NUMBER

IT'S THE LAW

When you apply for credit, you should know about two laws.

THE EQUAL CREDIT OPPORTUNITY ACT

This law says:

- You can't be turned down for credit just because of your sex, race, religion or where you were born.
- You can't be turned down just because of your age (unless you are too young to sign a contract).
- You can't be turned down just because you are single, married, divorced or separated.
- You can't be turned down just because you are on welfare or Social Security.

THE FAIR CREDIT REPORTING ACT

This law says that if you are turned down for credit:

- You must be told the name of the credit bureau that has your report.
- You have a right to see your record at the credit bureau.
- If you think there is a mistake, the credit bureau must check it out. If you are right, the bureau must correct the mistake and tell your creditors. If you can't agree, your side of the story must be put in your file.

  Most bad information about you can't be reported after 7 years.

WHO'S GOT A FILE ON YOU?

People's credit records are kept by *credit bureaus* (BY͡OOR ōs). Another name for credit bureau is *credit reporting agency*. Businesses ask the credit bureau about you when you apply for credit. Businesses report to credit bureaus about their customers.

Look in the Yellow Pages to find a credit bureau where you live. (Look under *Credit* or *Credit Reporting Agencies*.) Write the name, address and phone number of a credit bureau.

Name _____ Address _____ Phone _____

If you have used credit, the credit bureau probably has a file on you. You can ask to see your credit records. Call the bureau to set up a visit. Some credit bureaus may charge you a fee to see your records.

WHAT'S IN YOUR FILE AT THE CREDIT BUREAU?

Employment information
Who you work for, your salary, how long you've been employed, etc.

Personal information
Your age, your address, whether you are married and have children. What your friends and neighbors say about you.

Public information
Whether you have been arrested, divorced, involved in a law suit.

Credit information
How you have used credit, whether you pay your bills on time, etc.

What's in your file in the computer at the credit bureau?

YOUR CREDIT RATING

As you use credit, you build a credit record or credit history. This tells how much credit you use. It tells if you pay your bills on time.

Creditors judge you by your credit record. They give you a "credit rating." You will have a good credit rating if you use credit and pay your bills on time. If you don't pay your bills, you will have a bad credit rating. You don't have any credit rating if you don't buy on credit.

WHAT DO YOU THINK?

Joe has a steady job. He pays cash for everything he buys. Susan has charge accounts at five stores. She always pays her bills on time. Who has a good credit rating?

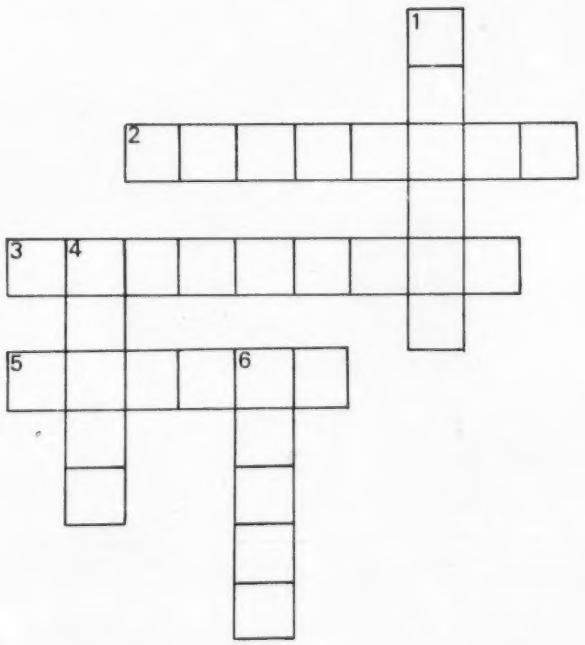
Circle one: Joe Susan

Susan has a good credit rating. Her record shows she uses credit and pays her bills. Joe does not have any credit rating. He never uses credit.

ONCE AGAIN

Can you do this puzzle? Use these words:

creditor	equal	apply
bureau	rating	reporting



Across

2. A _____ gives you credit.
3. The Fair Credit _____ Act.
5. A credit _____ keeps records on people.

Down

1. If you pay bills on time, you will get a good credit _____.
4. The _____ Credit Opportunity Act.
6. When you _____ for credit, you fill out an application.

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Chapter 2

WHEN YOU SAY "CHARGE IT"

Suppose that you want to have a charge account at a store. You want to charge what you buy. Later the store will send you a bill. You will pay later for what you buy now. There are different kinds of charge accounts.

REGULAR or 30-DAY ACCOUNT

You must pay your bill within 20 to 30 days after the date of the bill. You don't owe any finance charge if you pay on time.

REVOLVING or OPEN-END ACCOUNT

You have two choices.

1. You can pay *all* the money you owe within 20 to 30 days after the billing date. If you pay on time, there is no finance charge.
2. You can pay *part* of the money that you owe. Next month you will be billed for the rest of the money. This is called the unpaid balance. You will be charged a finance charge on the unpaid balance. As long as you owe money, you will pay a finance charge. You can make new purchases. But there is a limit to how much you can owe. Each month you must make a payment. Usually you must pay $10 or 10% of the unpaid balance. Usually the finance charge is 1½% each month. This is an annual percentage rate of interest (APR) of 18%.

BRAIN TEASERS

Circle the word in brackets that completes the sentence correctly.

Anne has an account at a department store. Her bill says she can pay either $10 or $74. She has a (regular revolving) charge account.

Roy has an account at a clothing store. His bill says he has 20 days to pay what he owes. He has a (regular revolving) charge account.

Chris has a revolving charge account at a hardware store. His bill is $65 for tools that he bought this month. He pays part of the bill. Next month he (will won't) owe a finance charge.

Last month Maria forgot to pay her department store bill. This month she was charged a finance charge. The annual percentage rate of the finance charge (APR) is 18%. This means the monthly interest rate is (1% 1½%).

Name one store where you would like a charge account.

Go to the store. Find out about credit plans that the store offers.

CREDIT CARDS: PLASTIC MONEY

When you have a charge account, you are usually given a plastic card. You show the card when you buy on credit. The card tells your name and address. It shows how you sign your name. There are different kinds of credit cards. Here are some of them:

SINGLE-USE CREDIT CARDS

These give you a charge account with one company such as a store or oil company. Usually you don't pay for the credit card. These cards give you regular or revolving credit.

Can you name one single-use credit card? _____

"I see trouble in your future."

TRAVEL & ENTERTAINMENT (T & E) CREDIT CARDS

These can be used to charge at stores, hotels, restaurants. They can be used around the world. You pay a yearly fee for the card. The card gives you revolving credit. One T & E credit card is American Express.

Can you name another T & E card?

_____

BANK CREDIT CARDS

You get a bank credit card from a bank. Like T & E cards these give you credit many places. You can buy tickets when you travel. You can charge at stores, hotels and restaurants. You can get a cash advance up to your available line of credit. You will usually pay a 2% fee for this and 1% interest on the unpaid balance each month. Bank cards give you revolving credit. Finance charges and other rules differ from bank to bank. One bank credit card is Master Charge.

Can you name another bank credit card? _____

HOW ABOUT YOU?

Do you have any credit cards?

☐ Yes ☐ No

IT PAYS TO READ THAT BILL

Imagine that you have a revolving charge account at a department store. This is your bill. It covers the past month. Read it and answer the questions that follow.

SUPER DEPARTMENT STORE

BILLING DATE

AUG 2, 1979

NEXT BILLING DATE

SEPT 2, 1979

CUSTOMER NAME
STREET
CITY STATE ZIP

ACCOUNT NUMBER
104-56A-032

AMOUNT OF PAYMENT $ _____

PLEASE RETURN THIS SECTION WITH PAYMENT

DATE	STORE	REFERENCE NO.	DESCRIPTION	PURCHASES	PAYMENTS CREDITS
7/24	WA	114466-89654	PAYMENT		92.80
7/28	WA	436709-98654	CREDITS		11.69
7/28	WA	987634-00982	COSTUME JEWELRY	16.83	

FROM YOUR PREVIOUS BALANCE	WE HAVE DEDUCTED PAYMENTS	WE HAVE DEDUCTED CREDITS	THEN ADDED PURCHASES	THIS IS YOUR NEW BALANCE	AMOUNT PAST DUE	INCLUDES ANY PAST DUE MINIMUM NOW DUE
141.62	92.80	11.69	16.83	55.61	.00	10.00

AVERAGE DAILY BALANCE	ANNUAL PERCENTAGE RATE 18% ON	ANNUAL PERCENTAGE RATE 12% ON	FINANCE CHARGE	TO AVOID ADDITIONAL FINANCE CHARGE PAY NEW BALANCE BEFORE	NEXT CLOSING DATE
110.06	110.06	.00	1.65		09/02/79

The **ANNUAL PERCENTAGE RATE** of the **FINANCE CHARGE** is 18% on the first $500 of the Average Daily Balance and 12% on that portion of the Average Daily Balance in excess of $500. The Average Daily Balance excludes any purchases added during the monthly billing period. To avoid additional **FINANCE CHARGES** pay NEW BALANCE before Next Billing Date. Payment of amounts disputed under the Fair Credit Billing Act may be deferred.

1. What did you buy last month? _____
2. What was the amount you purchased last month? $_____
3. What was your previous balance (the amount you owed last time you were billed)? $_____
4. How much did you pay the store last month? $_____
5. You returned a purchase on July 28. How much was added or credited to your account? $_____
6. How much were you charged as a finance charge? $_____
7. What annual percentage rate of interest was used to figure the finance charge? _____ %
8. How much money do you now owe the store? $_____
9. What is the smallest amount (minimum now due) that you must pay this month? $_____
10. By what date must you make a payment? _____

WHAT IF THERE'S A MISTAKE ON YOUR BILL?

Have you ever gotten a bill that had a mistake on it? ☐ Yes ☐ No

Tell what you did about the mistake: _____

_____

The *Fair Credit Billing Act* tells what to do if you think there's a mistake on your bill.

— You should write the creditor (see page 5 for meaning of this word) within 60 days after the bill was mailed. Give your name and account number. Tell what you think is wrong with the bill.

— While you wait for an answer, you don't have to pay money that you don't think you owe.

— The creditor must answer you within 30 days. If you were right, the creditor must correct the bill. You don't owe any finance charges unless you were wrong and the bill was correct.

— You must pay all parts of your bill not in dispute.

— After you have gotten in touch with the creditor, no one may send you collection letters.

QUESTIONS TO ASK WHEN YOU BUY ON CREDIT

How much will it cost to use credit? _____

How much is the finance charge? _____

What is the annual percentage rate? _____

Can you afford the payments? _____

How long will it take to make the payments? _____

Will what you buy outlast the payments? _____

Is the extra cost of credit worth it to you? _____

Can you get credit more cheaply somewhere else? _____

Have you shopped more than one place for credit? _____

WHEN YOU SIGN A CREDIT CONTRACT . . .

Don't sign a contract if there are any blank spaces. Get a completed, readable copy of the contract.

Be sure you can understand the contract. Get someone you trust to tell you what the contract means if you do not understand it.

WHAT IF YOUR CREDIT CARD IS LOST OR STOLEN?

If your credit card is lost or stolen, act fast. Write or call the company that gave you the card. As soon as you do this, you don't have to pay any charges that aren't yours. If someone uses your card before you tell the credit card company, the most you might have to pay is $50.

If you have credit cards, you should keep a list of the card numbers. Look at the back of each card. Write down the address and phone number of the credit card company.

Name of credit card	Account number	Address and phone number of credit card company

WHAT ARE YOU DOING
WRITING THE STORE TO COMPLAIN ABOUT MY BILL.
I JUST HEARD ABOUT THE FAIR CREDIT BILLING ACT. IT SAYS I DON'T HAVE TO PAY RIGHT AWAY IF THERE'S A MISTAKE.
THAT RED DISCO DRESS I BOUGHT WAS A MISTAKE. I LOOK TERRIBLE IN IT.
THE LAW DOESN'T COVER THAT KIND OF MISTAKE!

GUARD THAT CREDIT CARD!

Carry only credit cards you need.

Don't lend your credit card to a friend.

Make sure you get your credit card back each time that you use it.

Carry credit cards in a safe place.

Compare monthly bills with your own records.

If a credit card is outdated, destroy it. It is no good.

Tell credit card companies if you move or change your name.

SHOPPING FOR CREDIT

Mike wants to buy a color TV. He does not have enough money to pay cash. He wants to buy on credit. He compares TV's to find the right one. He also shops for credit.

Mike visits a TV store. There he can buy on the *installment* plan. He will have to make a cash *down payment*. That means he will pay part of the *money* now. Then he will pay some money each *month* until the TV is paid for.

The salesperson shows Mike an installment *contract*. A contract is a written *agreement*. If Mike buys the TV, he will sign a *contract*. The contract tells how much Mike will *pay*. It tells about the *finance charge* Mike will pay. It tells what would happen if Mike missed a *payment*.

Mike can take 18 months to pay for the TV. Each month he must pay $20.97. (377.46 ÷ 18 = $20.97)

Here is part of the contract. Read it and answer the questions at the right.

1.	Cash Price	$350.00
2.	a. Cash Downpayment $47.50	
	b. Trade-in $ —	
	Description	
	Total Downpayment (a + b)	$ 47.50
3.	Unpaid Balance of Cash Price (1 − 2)	$302.50
4.	Other charges:	
	a. Sales Tax (if any) $17.50	
	b. Official Fees $	
	c. _____ $	
	Total Other Charges (a + b + c)	$ 17.50
5.	Amount Financed (Unpaid Balance) (3 + 4)	$320.00
6.	FINANCE CHARGE	$ 57.46
7.	Total of Payments (5 + 6)	$377.46
8.	Deferred Payment Price (1 + 4 + 6)	$424.96
9.	ANNUAL PERCENTAGE RATE	21.64%
10.	The Finance Charge applies from March, 1979	

I'VE GOT TO BUY A NEW COLOR TELEVISION!
I-I-I- DON'T HAVE ENOUGH MONEY.
I WONDER WHERE I'LL FIND THE MONEY?
I KNOW... I'LL BUY THE T.V. ON CREDIT!
CREDIT CARDS

1. What is the cash price of the TV? _____ (Look at line 1)

2. What downpayment would Mike make? _____ (Look at line 2)

3. How much sales tax would Mike pay? _____ (Look at line 4a)

4. What finance charge would Mike pay? _____ (Look at line 6)

5. What is the APR (annual percentage rate) of the finance charge? _____% (Look at line 9)

6. How much would Mike pay for the TV? _____ (Look at line 8)

7. How much would Mike pay if he could pay cash now? _____ (Add the cash price and the sales tax)

8. How much more would it cost Mike to buy on credit? _____ (Look at line 6)

Mike doesn't sign the contract. He shops at another store. He has a revolving charge account at this second store. He wants to know if it will cost him less to buy on credit at this store.

Mike finds the TV he likes for the same price: $350, plus $17.50 tax. He would not have to make a down payment at this store. Each month he would have to pay 10% of the money he owes. He would pay a finance charge of 1½% each month (APR 18%). He will pay for the TV in 18 months.

Each month Mike would have to make a smaller payment than the month before. The first month he would pay 10% of the total cost or $36.75. Then he would owe $330.75. Each following month Mike would have to pay 10% of what he owes plus a finance charge of 1½%. Look at the chart to see Mike's costs for the first six months.

Cost of TV	=	$350.00
Sales Tax	=	17.50
Total cost		367.50

Month	Previous Balance	Finance Charge	Payments	New balance	Percent paid
				$367.50	
1st mo.	$367.50		$36.75	330.75	10%
2nd mo.	330.75	$4.96	33.57	302.14	10%
3rd mo.	302.14	4.53	30.67	276.00	10%
4th mo.	276.00	4.14	28.01	252.13	10%
5th mo.	252.13	3.78	25.59	230.33	10%
6th mo.	230.33	3.45	23.38	210.40	10%

Mike learns some other things about the credit plans.

INSTALLMENT PLAN	REVOLVING CHARGE
Mike must pay a fee if he misses a payment.	No special fee for missing a payment.
If Mike misses a payment, he may be made to pay at once all that he owes.	If Mike misses a payment, he pays an extra month's interest charge, but he won't have to pay at once all that he owes.
Mike must pay $15 if he wants to pay in full before 18 months are up.	Mike can pay in full at any time.

WHICH CREDIT PLAN SHOULD MIKE CHOOSE?

Help Mike compare the two credit plans. Circle the word or words in brackets that complete the sentence best.

With which plan will Mike pay more interest? (revolving installment)

If Mike buys on his revolving charge, his monthly payments will (get smaller stay the same).

With the revolving charge plan, Mike's first monthly payments would be (smaller larger) than with the installment plan.

Chapter 3

WHEN YOU NEED TO BORROW MONEY

Have you ever borrowed money? If you haven't, chances are that you will. Look ahead to the next few years. Why might you need a loan?

- ☐ To buy a car
- ☐ To buy furniture
- ☐ To buy a major appliance
- ☐ To pay for an education
- ☐ To take a trip
- ☐ To pay medical bills
- ☐ To buy a house
- ☐ To remodel a house
- ☐ Other: _____
- ☐ Other: _____
- ☐ Other: _____
- ☐ Other: _____

When you do need a loan, remember:

There are different kinds of loans.

There are different kinds of lenders.

If you know how to shop for a loan, you can save money.

WHERE CAN YOU GO FOR A LOAN?

Here are some places that lend money. As you read about them, ask yourself: How do they differ? Which would be best for me?

COMMERCIAL BANKS

The name "commercial" is left-over from long ago. Back then these banks made loans only to businesses. Now they make loans to consumers, too. They also offer checking accounts and savings accounts.

Do you have a checking account at a commercial bank? ☐ YES ☐ NO

Do you have a savings account at a commercial bank? ☐ YES ☐ NO

What is the name of the bank? _____

_____

Commercial banks make many kinds of loans. They are a good place to start shopping for a loan. You do not have to have an account to get a loan. It may help you if you are a customer.

SAVINGS AND LOAN ASSOCIATIONS

Savings and loan associations offer savings accounts. Do you have a savings account at a savings and loan association?

☐ YES ☐ NO

What is the name of the savings and loan association? _____

_____

If you have a savings account, you could borrow "against" your savings. This means you could get a loan of up to 90% of your savings. Interest rates are low — usually slightly more than the interest your savings earn. Savings and loan associations also lend money to buy houses.

SAVINGS BANKS

Savings banks accept savings deposits and make loans. Not all states have savings banks.

Do you have an account at a savings bank? ☐ YES ☐ NO

What is the name of the savings bank?

_____

If you have an account, you could borrow against your savings. You can also get other kinds of loans even if you don't have an account.

CREDIT UNIONS

These are formed by people who have a "common bond". They may work or worship together. They may belong to a union. They may live in the same neighborhood. Members join together to save their money. They make loans to each other.

Do you belong to a credit union?
☐ Yes ☐ No

Is there a credit union you could join? ☐ Yes ☐ No

What is the name of the credit union?

_____

Credit unions make loans only to their members. They charge lower interest rates than some lenders. They are a good place to go for a loan if you are a member. For more information about credit unions, you can call your State League of Credit Unions - look under *Credit Unions* in the Yellow Pages. You can also write to the Credit Union National Association, Post Office Box 431, Madison, Wisconsin 53701.

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CONSUMER FINANCE COMPANIES (SMALL LOAN COMPANIES)

Finance companies make many loans to consumers. Some are for small amounts. Finance companies charge higher interest rates than banks or credit unions. This may be the main reason they also take more risks than banks. If you are turned down by a bank, you might get a loan from a finance company. But try other lenders first.

PAWNBROKERS

Pawnbrokers give small loans for short periods of time. You leave something of yours like a watch or camera. The broker holds this until you repay the loan. The pawnbroker lends an amount based on what he thinks the item is worth. Interest rates are high. You might pay 3% interest or $1.00 minimum each month. If you don't repay the loan with interest, the broker sells your belonging. Try a pawnbroker only as a last resort.

LOAN SHARKS

Watch out for loan sharks! Why are they called sharks? Once they get ahold of you, they don't let go. Loan sharks lend money illegally. They don't have a license. Their finance charges are very high.

"Step into my parlor," said the loan shark to his prey.

TEST YOURSELF

Here are seven kinds of lenders. Complete the list by drawing lines. Match the words on the left with the words on the right.

consumer finance	associations
commercial	unions
credit	sharks
savings	companies
savings and loan	banks
loan	brokers
pawn	banks

TRUE or FALSE

Read the following statements and circle the best answer.

1. Credit unions make loans only to members. TRUE FALSE

2. Commercial banks make many kinds of loans. TRUE FALSE

3. A commercial bank won't lend you money unless you have an account there. TRUE FALSE

4. Loan sharks lend money legally. TRUE FALSE

5. Consumer finance companies charge low interest rates. TRUE FALSE

6. Savings and loan associations make loans to people with savings accounts. TRUE FALSE

7. Pawnbrokers make large loans. TRUE FALSE

MORE ABOUT LOANS

There's a lot to know about loans. Here are some kinds of loans.

SINGLE PAYMENT LOAN — This loan is usually made for a short time. You repay the loan plus finance charge all at one time.

INSTALLMENT LOAN — This loan is repaid in installments. Each month you make a payment. Most consumer loans are installment loans.

SECURED LOAN — This is also called a *collateral* (kō LAT ẽr ăl) loan. The lender holds something of yours until you repay. If you get an auto loan, the lender holds the title of the car. When you pay off the loan, you get the title. If you don't repay the loan, the lender can sell the car.

UNSECURED LOAN — This is also called a *signature* loan. The borrower doesn't give the lender anything as security.

MORTGAGE LOAN — This is a type of loan you get when you buy a house.

PASSBOOK LOAN — This is a type of loan where you can borrow from your bank or savings and loan. Usually you can borrow up to 90% of your savings. The bank "freezes" your account. You can't take your savings out. Usually interest rates are low — 1-2% above the interest rate paid to you on your savings. And remember — your savings are earning interest while you are using the loan money.

Can you unscramble these kinds of loans?

tgemorag _____ loan

metltsnialn _____ loan

lngsie tnyapme _____ loan

bokpsaso _____ loan

duesrce _____ loan

rescduenu _____ loan

SHOP FOR A LOAN

Shop for a loan of $1,000, to be paid back in installments over 1 year. Visit some lenders near you. Or call them on the phone. Fill in this form.

LENDER	LOAN AMOUNT	APR	FINANCE CHARGE	OTHER INFORMATION
Bank #1 Name _____ Address _____ _____ Phone _____	$1,000	_____ %	$_____	_____ _____ _____ _____ _____
Bank #2 Name _____ Address _____ _____ Phone _____	$1,000	_____ %	$_____	_____ _____ _____ _____ _____
Consumer Finance Company Name _____ Address _____ _____ Phone _____	$1,000	_____ %	$_____	_____ _____ _____ _____ _____
Credit Union Name _____ Address _____ _____ Phone _____	$1,000	_____ %	$_____	_____ _____ _____ _____ _____

Chapter 4

USING AND MISUSING CREDIT

PLAN A PURCHASE

Never use credit without thinking of the cost. When you do plan first.

1. Think of something you need or want to buy. It should cost $500 or more. Tell what it is and how much it would cost:

   _____

2. Think about paying *cash.*

   How long would you have to save to get enough money to buy it? _____

   Can you wait this long? ☐ Yes ☐ No

   Will the price go up while you wait? ☐ Yes ☐ No

3. Think about buying on *credit.*

   Where could you get the credit? _____

   _____

   _____

   How much would you pay each month? _____

   About how long would it take you to pay for it? _____

   About how much more would it cost you to buy on credit? _____

   Would it be worth an extra cost? ☐ Yes ☐ No

4. Would it be better for you to pay cash or to buy on credit?

   ☐ Cash ☐ Credit

TOO MUCH CREDIT?

Remember the word *debt*? It was at the beginning of this workbook. When you use *credit*, you go into debt. Be careful. Never go too deep in debt. It gives you a sinking feeling. It can also drown you.

How deep is too deep? Some experts say your debts should not be more than 20% of your take-home pay. This does not include a mortgage loan if you are buying a house. You may also be heading for trouble if:

— You don't have any savings.

— You can't pay off your debts in a year.

Each month, add up your bills. Find out how much you owe.

Here are four rules. Follow them. They will help you use credit wisely.

1. Use credit only when you need it.
2. Use the smallest amount of credit you can.
3. Shop to find the cheapest credit.
4. Pay off your debts quickly.

Keep your credit cards under control.

Watch out! These signs mean DANGER!

You don't know where your money goes.

You don't know how much you owe.

You use credit more and more.

Each month you can pay only the minimum on your charge accounts.

You need a new loan to pay off an old loan.

Your creditors are asking you to pay bills.

WHAT CAN YOU DO?

What if you can't pay your bills?

Suppose you get sick. Suppose you lose your job. Suppose you just have too many bills. What can you do?

Go talk to your creditors. Tell them you want to pay. Try to pay something, even if you can't pay the full amount.

If you are deep in debt, you need counseling. Your best bet is a nonprofit consumer credit counseling service. Credit counseling services help people with credit problems. If there isn't one listed in your telephone book, go to a family service or social service agency. It may offer counseling. Or it will send you to someone who can help.

A counselor will help you change the way you use credit. You will need to change the way you live. You will need a plan to get out of debt. The counselor will talk to your creditors and help you with your debt-payment plan.

Do something before you are in big trouble. Keep credit under control. Don't let your credit cards push you over the edge.

Don't let your credit cards push you over the edge.

WHAT DO YOU THINK ABOUT CREDIT?

Now you are near the end of this workbook. Take a minute to think about credit. Check the statements you agree with.

- ☐ It is always better to pay cash than to use credit.
- ☐ Most people can't get along without credit.
- ☐ It is very important to build a good credit rating.
- ☐ A loan should be repaid as soon as possible.
- ☐ Most people use too much credit.
- ☐ You should be as careful with credit cards as with cash.
- ☐ Using credit can help you save money.
- ☐ You should always plan the use of credit.
- ☐ Before you use credit, you should find out the cost.
- ☐ You should use credit only when you have to.
- ☐ Credit should be used to buy only things that cost a lot.
- ☐ Credit can get you into trouble.

NOW, THINK ABOUT WHAT YOU CAN DO

Now you know a lot more about credit. Think about how you will use credit. Tell 3 things you will do when you use credit:

1. _____

2. _____

3. _____

THE BUYING ON CREDIT GAME
A GAME FOR TWO PLAYERS

On the next two pages is a game for you to play. It will remind you of the difference between the ways that you can use to buy on credit.

What to do: Cut out the credit cards at the left of page 31. Shuffle the cards. Turn them so the credit card side is showing and the numbers on the cards are down.

One person will begin at the upper left of the game board and one person will begin at the lower right. Take turns picking up the credit cards and move ahead the number of spaces on the credit card. The first player to reach an "End Here" box wins.

THE BUYING O

BEGIN:
You want to buy a new winter coat.

When you find a coat you like, you have saved only $50. You need $150. **GO BACK 1 SPACE.**

You check with a finance company. The finance charge for a loan there would be 1¾% each month. **MOVE AHEAD 1 SPACE.**

You studied the ways you could buy on credit. You found the best plan for you and bought the coat. **END HERE.**

You studied all the ways you could bu on credit. You have found the best plan for you. **END HERE**

You could use your old coat and save your money until next year. You will make 5¼% on your passbook account. **MOVE AHEAD 2 SPACES.**

You check with your credit union. You would pay a 1% finance charge each month if you borrowed $600 there. **MOVE AHEAD 2 SPACES.**

I CREDIT GAME

The store will let you use your credit card. You would pay 1½% each month. **MOVE AHEAD 2 SPACES.**	
	The department store has a revolving charge plan. The finance charge would be 1½% each month. **MOVE AHEAD 2 SPACES.**
You find a stereo that you like that costs $600. You don't have $600. **GO BACK 1 SPACE.**	**BEGIN:** You want to buy a new stereo.

1	2
1	2
1	2
1	3
1	3
2	3
2	3